

**FINANCIAL STATEMENTS
OF THE
CITY OF VIRGINIA BEACH
DEVELOPMENT AUTHORITY**

**A COMPONENT UNIT OF
THE CITY OF VIRGINIA BEACH, VIRGINIA**

**FOR FISCAL YEARS ENDED
JUNE 30, 2014 AND JUNE 30, 2013**

**PREPARED BY
DEPARTMENT OF ECONOMIC DEVELOPMENT
WARREN D. HARRIS
DIRECTOR**

Acknowledgements....

The preparation of this report has been accomplished by the efficient and dedicated services of the staff of the Department of Economic Development. The contributions of all are invaluable and sincerely appreciated and clearly reflect the high standards which have been set by the City of Virginia Beach Development Authority.

Management - Sean Murphy

Technical Assistance - Don Barnett
Nancy Leavitt
Paul Harris

It is also appropriate to thank the members of the City of Virginia Beach Development Authority for making possible the excellent financial position of the Authority through their interest and support in planning and conducting the financial affairs of the Authority.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

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INTRODUCTORY SECTION

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

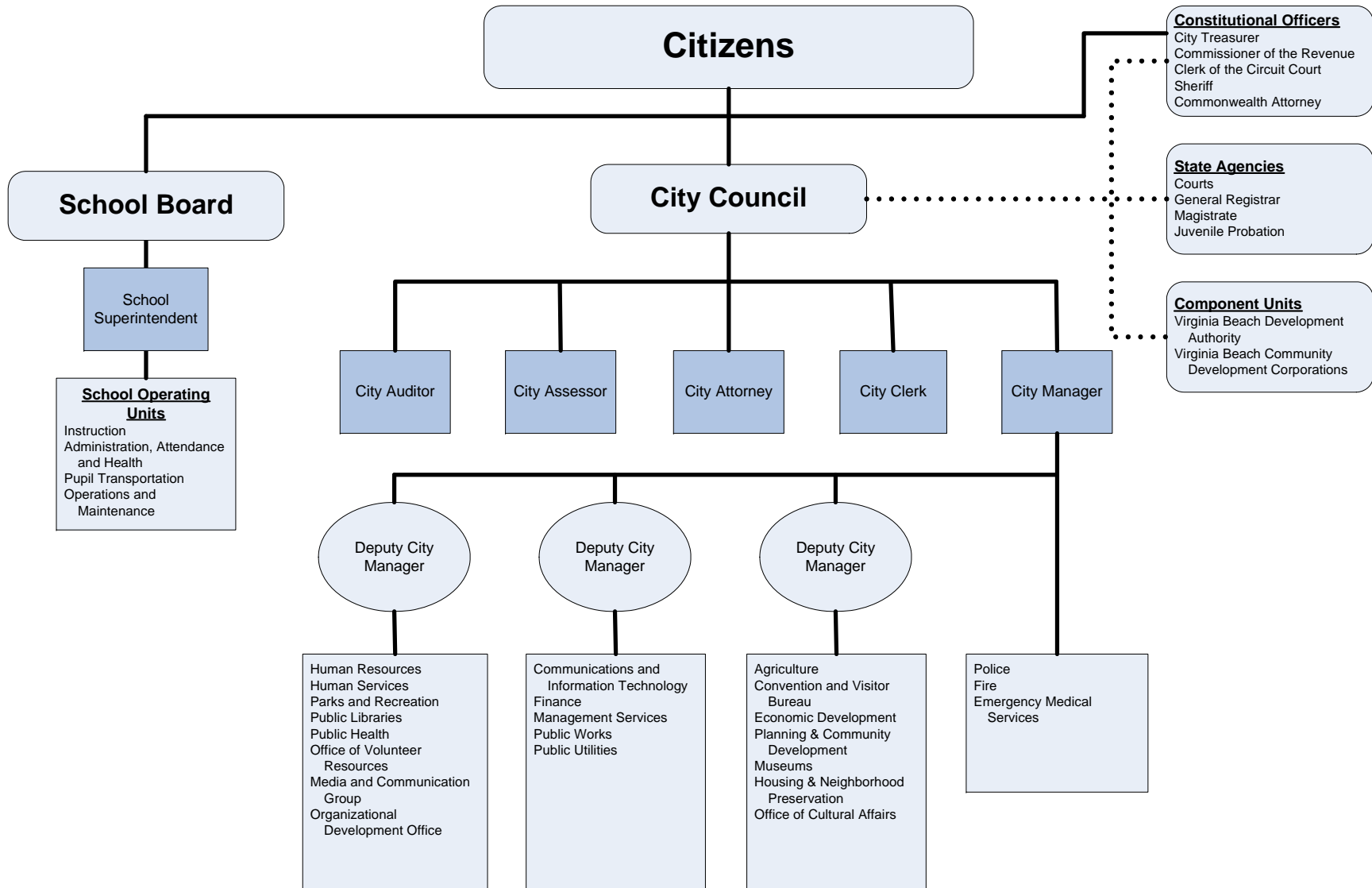
Component Unit of the City of Virginia Beach, Virginia

Commissioners

Linwood O. Branch Commissioner
Bryan D. Cuffee Commissioner
Michael H. Levinson Commissioner
Stephen J. McNulty Commissioner
Peter Mueller Commissioner
Rob L. Nicholson Commissioner
Charles M. Salle Commissioner
Joseph E. Strange Commissioner
Elizabeth A. Twohy Commissioner
Shewling Moy Commissioner
Dorothy L. Wood Commissioner

The City of Virginia Beach Development Authority would also like to recognize John W. Richardson and C. Maxwell Bartholomew, Jr. for their services as Commissioners.

Operating Structure





October 14, 2014

Commissioners, Virginia Beach Development Authority
4525 Main Street, Suite 700
Virginia Beach, VA 23462

Dear Commissioners:

The Annual Financial Report of the City of Virginia Beach Development Authority (the Authority) for the fiscal years ended June 30, 2014 and 2013 is hereby submitted. Responsibility for the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with the Authority. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the Authority's operations. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the report of the independent auditors.

The Reporting Entity

The City of Virginia Beach Development Authority was established by the authority of the Virginia General Assembly in 1964 in order to increase business investment and to expand the tax base in the state of Virginia. That same year, the City Council of Virginia Beach appointed seven Virginia Beach businessmen to serve as Commissioners of the first Authority, effective July 27, 1964. On July 1, 2003, the Virginia State Code was revised to allow eleven commissioners to serve on Development Authorities within the state. Following that change, the City Council of Virginia Beach appointed four additional commissioners.

The Authority is a component unit of the City of Virginia Beach; however, it is a legally separate organization. The City Council of Virginia Beach was determined to be financially accountable for the Authority on the basis of the selection of the governing authority, designation of management, ability to influence operations, and accountability in fiscal matters.

The Authority exists to facilitate the expansion of the tax base and employment opportunities in the City through increased business development and redevelopment. The Authority uses Industrial Revenue Bonds, the Economic Development Incentive Program, workforce development, project development personnel, and business development personnel to enable and assist businesses to locate and expand in the City of Virginia Beach.

Economic Conditions and Outlook

During fiscal year 2014, the Authority assisted in the creation of nearly 1,000 new jobs and more than \$111 million of new capital investment by 50 projects, with more than 1,200 jobs retained in Virginia Beach by 26 expanding companies. Five announcements were from international companies, and eight came from among Virginia Beach Small, Women- or Minority-Owned businesses.

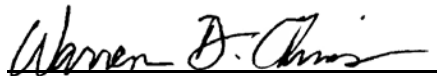
In fiscal year 2014, the Authority continued construction on the Town Center of Virginia Beach, locating new business, retaining and expanding existing industry, leveraging the City's Economic Development Investment Program Fund (EDIP), and working with City Council on the development of projects and initiatives.

Acknowledgements

During the year, the staff of the City of Virginia Beach Department of Economic Development and the Finance Department rendered professional and knowledgeable services to the City of Virginia Beach Development Authority. We are most appreciative of these efforts and take this opportunity to recognize these public servants.

The Development Authority's oversight of their financial affairs has resulted in this strong financial report, and these individuals are commended for the policies and practices which they put in place to create this outcome.

Respectively,



Warren D. Harris
Director, Virginia Beach Department of Economic Development

FINANCIAL SECTION

Report of Independent Auditor

The Commissioners
City of Virginia Beach Development Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Virginia Beach Development Authority (the "Authority"), a component unit of the City of Virginia Beach, Virginia, as of and for the years ended June 30, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 – 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section on pages 1 – 4 and supplementary information schedules presented on pages 47 – 51 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information schedules presented on pages 47 – 51 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Cheryl Bekant LLP

Virginia Beach, Virginia
October 14, 2014

MANAGEMENT'S DISCUSSION

AND

ANALYSIS

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

This section of the City of Virginia Beach Development Authority's (the "Authority") annual financial report represents our discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the Authority's transmittal letter at the front of this report and the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority's business-type net position increased by \$5.94 million in fiscal year 2014 and \$1.11 million in fiscal year 2013. In fiscal year 2014, the increase was mainly due to the increase in receivables. In fiscal year 2013, the increase was mainly due to the reduction in long-term liabilities.
- The Authority's governmental net position increased by \$.74 million in fiscal year 2014 and \$.06 million in fiscal year 2013. The increase in both fiscal year 2014 and 2013 was due to the increase in construction in progress for Town Center.
- The Authority provided economic development services, as requested by the Virginia Beach City Council, for the Town Center Project that are accounted for in the Authority's Governmental Fund. When projects or phases of projects are complete, the associated costs are capitalized and transferred out of the Governmental Fund and into the Authority's Proprietary Fund or to the City.
- During June 2014, the Authority sold 3.50 acres of land in Corporate Landing for \$.17 million. This transaction is accounted for in the Authority's Proprietary Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the notes to the financial statements, and other supplemental information.

The Authority's financial statements present two types of statements, each with a different snapshot of the Authority's finances. This focus is on both the Authority as a whole (entity-wide) as well as on the individual funds. The entity-wide financial statements provide both long-term and short-term information about the Authority's overall financial status. The fund financial statements focus on the individual parts of the Authority, reporting the Authority's operations in more detail than the entity-wide statements. Both perspectives (entity-wide and fund) allow the user to address relevant questions, broaden the basis for comparison (year-to-year or entity-to-entity) and enhance the Authority's accountability.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The focus of the Statement of Net Position is to report the entity's net position and how it has changed. Net position – the difference between assets and deferred outflows versus liabilities and deferred inflows – are one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in an entity's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

The Statement of Activities is focused on both the gross and net cost of various functions (governmental and business-type), which are supported by program revenues. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. This statement summarizes and simplifies the user's analysis of the cost of governmental activities and/or subsidy to business-type activities.

In the Statement of Net Position and the Statement of Activities, the Authority is divided into the following:

Governmental activities – The Authority's special projects are reported here. These activities consist of various economic development projects as requested by the Council of the City of Virginia Beach.

Business-type activities – The Authority's basic operations are reported here as the Authority charges a fee to customers to help cover the cost of certain services it provides.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Authority's significant funds – not the Authority as a whole. Funds are accounting devices that the Authority uses to keep track of specific sources of funding and spending for particular purposes.

The Authority has two types of funds:

Governmental fund – The Special Projects Fund is used to account for the financial resources for the acquisition or construction of ongoing construction projects conducted on behalf of the City of Virginia Beach (the City).

Proprietary fund – The Authority Operations Fund accounts for the activities of the Authority which charges fees for Industrial Revenue Bonds, acquires, develops and resells land, and administers the Economic Development Investment Program (EDIP).

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Net Position:

The following table reflects the condensed Net Position of the Authority:

Table 1									
Net Position									
As of June 30, 2014, 2013 and 2012									
(in millions)									
	Governmental			Business-Type			Total		
	Activities			Activities					
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Current and other assets	\$ 0.50	1.12	3.61	57.32	31.51	43.89	57.82	32.63	47.50
Capital assets	1.51	0.77	0.71	96.31	98.96	101.95	97.82	99.73	102.66
Total assets	<u>2.01</u>	<u>1.89</u>	<u>4.32</u>	<u>153.63</u>	<u>130.47</u>	<u>145.84</u>	<u>155.64</u>	<u>132.36</u>	<u>150.16</u>
Deferred Outflows	-	-	-	1.07	1.19	1.30	1.07	1.19	1.30
Current and other liabilities	0.50	1.12	3.61	4.58	2.91	14.73	5.08	4.03	18.34
Long-term liabilities	-	-	-	93.08	77.89	82.61	93.08	77.89	82.61
Total liabilities	<u>0.50</u>	<u>1.12</u>	<u>3.61</u>	<u>97.66</u>	<u>80.80</u>	<u>97.34</u>	<u>98.16</u>	<u>81.92</u>	<u>100.95</u>
Deferred Inflows	-	-	-	0.59	0.35	0.40	0.59	0.35	0.40
Net position:									
Net investment in capital assets	1.51	0.77	0.71	3.71	21.92	20.25	5.22	22.69	20.96
Restricted - other purposes	-	-	-	24.69	1.14	1.20	24.69	1.14	1.20
Unrestricted	-	-	-	28.05	27.45	27.95	28.05	27.45	27.95
Total net position	<u>\$ 1.51</u>	<u>0.77</u>	<u>0.71</u>	<u>56.45</u>	<u>50.51</u>	<u>49.40</u>	<u>57.96</u>	<u>51.28</u>	<u>50.11</u>

At June 30, 2014 and 2013, the total assets of the Authority were \$155.64 and \$132.36 million, respectively; total liabilities were \$98.16 and \$81.92 million, respectively; while combined net position was \$57.96 and \$51.28 million, respectively.

In fiscal year 2014 and 2013, the Authority's business-type long-term liabilities increased by \$15.19 million and decreased by \$4.72 million, respectively. The fiscal year 2014 increase was primarily due to the sale of Public Facility Revenue Bonds. The fiscal year 2013 decrease was primarily due to annual debt service payments on those long-term liabilities.

Regarding the Authority's business-type activities, the Authority's land and building inventory decreased \$.57 million in 2014 and had no activity in 2013. That decrease was primarily due to the 3.50 acres sold in Corporate Landing.

Regarding the Authority's governmental activities, capital expenses were incurred in the amount of \$.74 million in fiscal year 2014 and \$0.06 million in fiscal year 2013 as a result of costs associated with ongoing projects. No assets were completed or transferred to the City. These expenses resulted in an ending construction in progress balance of \$1.51 million and \$.77 million in fiscal years 2014 and 2013, respectively.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

Changes in Net Position:

The following table shows the revenue and expenses for the current and prior fiscal years:

Table 2									
Changes in Net Position									
Years Ended June 30, 2014, 2013 and 2012									
(in millions)									
	Governmental			Business-Type			Total		
	Activities			Activities					
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Revenues									
Program Revenue:									
Charges for services	\$ -	-	-	3.73	3.31	7.52	3.73	3.31	7.52
Operating grants and contributions	-	-	-	12.05	8.81	8.91	12.05	8.81	8.91
Capital grants and contributions	0.74	0.06	0.21	0.17	0.25	0.15	0.91	0.31	0.36
General Revenue:									
Other	-	-	-	0.13	0.03	0.03	0.13	0.03	0.03
Total revenues	0.74	0.06	0.21	16.08	12.40	16.61	16.82	12.46	16.82
Expenses									
Authority Operations	-	-	-	10.14	11.29	14.46	10.14	11.29	14.46
Special Items:									
Contribution from Primary Government	-	-	-	-	-	4.39	-	-	4.39
Contribution to Primary Government	-	-	-	-	-	(0.43)	-	-	(0.43)
Transfer to City	-	-	-	-	-	(0.86)	-	-	(0.86)
Total special items	-	-	-	-	-	3.10	-	-	3.10
Change in Net Position	0.74	0.06	0.21	5.94	1.11	5.25	6.68	1.17	5.46
Net Position - Beginning of Year	0.77	0.71	0.50	50.51	49.40	44.15	51.28	50.11	44.65
Net Position - End of Year	\$ 1.51	0.77	0.71	56.45	50.51	49.40	57.96	51.28	50.11

REVENUES

Revenues attributable to governmental activities were in the form of contributions, for economic development projects, from the City of Virginia Beach, option deposit revenue, and investment earnings. For the fiscal years ended June 30, 2014 and 2013, revenues from business-type activities (excluding special items) totaled \$16.08 and \$12.40 million, respectively. This included revenue derived from land and asset sales, industrial revenue bond fees, lease income, investment earnings, and support agreement funding from the City of Virginia Beach.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

EXPENSES

The expenses of the business-type activities included cost of land sold, depreciation/amortization, selling and administrative expenses, and interest on outstanding debt obligations. For the fiscal years ended June 30, 2014 and 2013, these expenses totaled \$10.14 and \$11.29 million, respectively.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

The Authority's governmental fund activities reflect support from the City of Virginia Beach as well as expenditures on Town Center infrastructure and the Pedestrian Bridge across Virginia Beach Boulevard. The ending fund balance of the governmental fund for fiscal year 2014 and 2013 was \$1.51 and \$0.77 million, respectively.

The proprietary fund includes total net position of \$56.45 and \$50.51 million at June 30, 2014 and 2013, respectively. In fiscal year 2014 and 2013, operating revenues from land sales, industrial revenue bond fees, lease income, reliance certificates, and miscellaneous revenue totaled \$3.73 and \$3.31 million, respectively, while operating expenses for cost of land and selling and administrative expenses totaled \$6.92 and \$7.68 million, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2014 and 2013, the Authority had invested \$97.82 and \$99.73 million (see note 5), respectively, in various capital assets and infrastructure as reflected in Table 3.

Table 3									
Capital Assets									
As of June 30, 2014, 2013, and 2012									
(in millions)									
	Governmental			Business-Type			Total		
	Activities			Activities					
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Non-depreciable assets:									
Land	\$ -	-	-	18.82	18.81	19.12	18.82	18.81	19.12
Other assets and capitalized costs	-	-	-	1.13	1.13	1.13	1.13	1.13	1.13
Construction in progress	1.51	0.77	0.71	-	-	-	1.51	0.77	0.71
Other capital assets:									
Buildings/equipment	-	-	-	102.22	102.25	102.25	102.22	102.25	102.25
Accumulated depreciation on other capital assets	-	-	-	(25.86)	(23.23)	(20.55)	(25.86)	(23.23)	(20.55)
Total net capital assets	\$ 1.51	0.77	0.71	96.31	98.96	101.95	97.82	99.73	102.66

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management’s Discussion and Analysis

Major capital asset additions in fiscal year 2014 included:

- Town Center Project – Phase V infrastructure construction including streets, curbs and gutters, sidewalks, underground utilities, and other capitalized costs - \$736,650

There were no major capital asset disposals and transfers in 2014.

There were no major capital asset additions in fiscal year 2013.

Major capital asset disposals and transfers during fiscal year 2013 included:

- Town Center Block 11 – The sale of the Block 11 land located in Town Center on April 25, 2013 - \$360,490

LONG-TERM DEBT

Table 4									
Long-Term Debt									
As of June 30, 2014, 2013, and 2012									
(in millions)									
	Governmental			Business-Type			Total		
	Activities			Activities					
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Bonds and notes payable:									
Public facility revenue bonds	\$ -	-	-	89.33	75.58	79.85	89.33	75.58	79.85
Notes payable	-	-	-	0.95	0.95	1.30	0.95	0.95	1.30
Other long-term liabilities:									
Bond premium	-	-	-	2.85	1.46	1.58	2.85	1.46	1.58
Bond discount	-	-	-	(0.04)	(0.11)	(0.12)	(0.04)	(0.11)	(0.12)
Total Long-Term Debt	\$ 0.00	0.00	0.00	93.09	77.88	82.61	93.09	77.88	82.61

The increase during the fiscal year 2014 relates to the Authority’s issuance of \$18,781,631 in Public Facility Revenue Bonds. For detailed information on the Authority’s long-term liabilities, please refer to Note 7 in the notes to the financial statements.

CONTACTING THE AUTHORITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide users (citizens, taxpayers, customers, clients, investors and creditors) with a general overview of the Authority’s finances and to demonstrate the Authority’s accountability for the funds it receives. Questions concerning this report or requests for additional information should be directed to Director of Economic Development, Virginia Beach Development Authority, 4525 Main Street, Suite 700, Virginia Beach, VA 23462, telephone (757) 385-6464, or visit the Authority’s website at www.yesvirginiabeach.com.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Statements of Net Position

June 30, 2014 and 2013

	Governmental Activities	Business-Type Activities	Total 2014	Governmental Activities	Business-Type Activities	Total 2013
Assets						
Cash and cash equivalents (note 2)	\$ —	8,019,302	8,019,302	—	7,452,955	7,452,955
Restricted cash and cash equivalents (notes 2 and 3)	497,791	1,598,135	2,095,926	1,120,862	2,304,653	3,425,515
Receivables, net (note 4)	—	153,664	153,664	—	159,979	159,979
Receivables, restricted (note 4)	—	26,094,999	26,094,999	—	78,730	78,730
Land/Building inventory	—	21,453,459	21,453,459	—	21,510,309	21,510,309
Capital assets (note 5)						
Other non-depreciable assets and capitalized costs	1,505,623	1,130,390	2,636,013	768,973	1,130,390	1,899,363
Land	—	18,824,119	18,824,119	—	18,805,222	18,805,222
Other capital assets, net of accumulated depreciation	—	76,360,225	76,360,225	—	79,022,111	79,022,111
Total capital assets	<u>1,505,623</u>	<u>96,314,734</u>	<u>97,820,357</u>	<u>768,973</u>	<u>98,957,723</u>	<u>99,726,696</u>
Total assets	<u>2,003,414</u>	<u>153,634,293</u>	<u>155,637,707</u>	<u>1,889,835</u>	<u>130,464,349</u>	<u>132,354,184</u>
Deferred Outflows of Resources						
Debt refundings resulting in loss transactions	—	1,069,172	1,069,172	—	1,186,879	1,186,879
Liabilities						
Accounts payable and accrued liabilities (note 6)	—	1,572,992	1,572,992	—	1,667,969	1,667,969
Liabilities payable from restricted assets (note 6)	497,791	3,004,184	3,501,975	1,120,862	1,245,724	2,366,586
Long-term liabilities (note 7)						
Due within one year	—	6,641,730	6,641,730	—	5,692,939	5,692,939
Due in more than one year	—	86,438,591	86,438,591	—	72,189,958	72,189,958
Total liabilities	<u>497,791</u>	<u>97,657,497</u>	<u>98,155,288</u>	<u>1,120,862</u>	<u>80,796,590</u>	<u>81,917,452</u>
Deferred Inflows of Resources						
Debt refundings resulting in gain transactions	—	589,435	589,435	—	349,967	349,967
Net Position						
Net Investment in Capital Assets	1,505,623	3,714,150	5,219,773	768,973	21,911,738	22,680,711
Restricted, other purposes (note 3)	—	24,688,951	24,688,951	—	1,136,782	1,136,782
Unrestricted	—	28,053,432	28,053,432	—	27,456,151	27,456,151
Total net position	<u>\$ 1,505,623</u>	<u>56,456,533</u>	<u>57,962,156</u>	<u>768,973</u>	<u>50,504,671</u>	<u>51,273,644</u>

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total 2014
Governmental activities							
Development activities	\$ —	—	—	736,650	736,650	—	736,650
Business-type activities							
Authority operations	10,138,332	3,731,366	12,050,520	175,028	—	5,818,582	5,818,582
Total	\$ 10,138,332	3,731,366	12,050,520	911,678	736,650	5,818,582	6,555,232
General Revenues:							
Unrestricted investment earnings					\$ —	22,388	22,388
Special Items:							
Cost participation in Town Center parking lot					—	110,892	110,892
Total general revenues and special items					—	133,280	133,280
Change in net position					736,650	5,951,862	6,688,512
Net position - beginning of year					768,973	50,504,671	51,273,644
Net position - end of year					\$ 1,505,623	56,456,533	57,962,156

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Statement of Activities
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total 2013
Governmental activities							
Development activities	\$ —	—	—	55,539	55,539	—	55,539
Business-type activities							
Authority operations	11,289,038	3,307,699	8,807,716	245,162	—	1,071,539	1,071,539
Total	\$ 11,289,038	3,307,699	8,807,716	300,701	55,539	1,071,539	1,127,078
General Revenues:							
Unrestricted investment earnings					\$ —	32,372	32,372
Special Items:							
Payment of net proceeds from exercise of 31st Street Land Option to City					—	—	—
Transfer in of Headquarters Hotel site					—	—	—
Transfer out of Princess Anne Commons land					—	—	—
Total general revenues and special items					—	32,372	32,372
Change in net position					55,539	1,103,911	1,159,450
Net position - beginning of year					713,434	49,400,760	50,114,194
Net position - end of year					\$ 768,973	50,504,671	51,273,644

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Balance Sheets - Governmental Fund
Special Projects
June 30, 2014 and 2013

	2014	2013
Assets		
Restricted cash and cash equivalents (notes 2 and 3)	\$ 497,791	1,120,862
Receivables (note 4)	—	—
Total assets	497,791	1,120,862
Liabilities and Fund Balance		
Liabilities (note 6)		
Liabilities payable from restricted assets	497,791	1,120,862
Total liabilities	497,791	1,120,862
Fund balance		
Unreserved	—	—
Total fund balances	—	—
Total liabilities and fund balance	\$ 497,791	1,120,862
Reconciliation to Statement of Net Position:		
Ending fund balance	\$ —	—
Adjustments for the Statement of Net Position:		
Capital assets used in government activities are not current financial resources and therefore not reported in the governmental fund	1,505,623	768,973
Net Position of Governmental Activities	\$ 1,505,623	768,973

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Statements of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund
Special Projects
Years Ended June 30, 2014 and 2013

	2014	2013
Revenues		
City Contributions:		
Town Center Infrastructure	\$ 736,650	49,080
Dome Site	—	6,459
Headquarters Hotel	—	—
Total revenues	736,650	55,539
Expenditures		
Construction:		
Town Center Infrastructure	736,650	49,080
Dome Site	—	6,459
Headquarters Hotel	—	—
Total expenditures	736,650	55,539
Excess of revenues over expenditures	—	—
Net change in fund balance	—	—
Fund balance at beginning of year	—	—
Fund balance at end of year	\$ —	—
Reconciliation to Statement of Activities		
Net change in fund balance	\$ —	—
Adjustment for the Statement of Activities		
Governmental funds report capital outlays as expenditures		
while governmental activities capitalize such costs	736,650	55,539
Changes in net position of governmental activities	\$ 736,650	55,539

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Statements of Net Position - Proprietary Fund
Authority Operations
June 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 8,019,302	7,452,955
Receivables, net (note 4)	30,938	37,253
Receivables, restricted (note 4)	23,759,625	43,469
Total current assets	31,809,865	7,533,677
Noncurrent assets:		
Restricted cash and cash equivalents (notes 2 and 3)	1,598,135	2,304,653
Receivables, restricted (note 4)	2,335,374	35,261
Receivables, net (note 4)	122,726	122,726
Land/building inventory	21,453,459	21,510,309
Capital assets (note 5)		
Other non-depreciable assets and capitalized costs	1,130,390	1,130,390
Land	18,824,119	18,805,222
Buildings and equipment	102,219,222	102,247,451
Less accumulated depreciation	(25,858,997)	(23,225,340)
Total noncurrent assets	121,824,428	122,930,672
Total assets	153,634,293	130,464,349
Deferred Outflows of Resources		
Debt refundings resulting in loss transactions	1,069,172	1,186,879
Liabilities		
Current liabilities:		
Accounts payable (note 6)	301,046	336,480
Accrued liabilities (note 6)	1,271,946	1,331,489
Liabilities payable from restricted assets (note 6)	25,088	88
Bonds, notes, and loans payable (note 7)	6,641,730	5,692,939
Total current liabilities	8,239,810	7,360,996
Long-term liabilities:		
Liabilities payable from restricted assets (note 6)	2,979,096	1,245,636
Bonds, notes and loans payable (note 7)	86,438,591	72,189,958
Total liabilities	97,657,497	80,796,590
Deferred Inflows of Resources		
Debt refundings resulting in gain transactions	589,435	349,967
Net Position		
Net Investment in Capital Assets	3,714,150	21,911,738
Restricted - other purposes (note 3)	24,688,951	1,136,782
Unrestricted	28,053,432	27,456,151
Total net position	\$ 56,456,533	50,504,671

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Statements of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund
Authority Operations
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues:		
Land sales	\$ 647,500	360,490
Industrial revenue bond fees (note 8)	300,270	337,332
Lease income (note 10)	2,690,700	2,492,040
Virginia Beach National Golf Course revenue (note 10)	92,896	116,977
Miscellaneous income	-	860
Total operating revenues	3,731,366	3,307,699
Operating Expenses:		
Cost of land sold	167,741	360,490
Virginia Beach National Golf Course (note 10)	92,896	116,977
General and other expenses (schedule A)	2,460,942	2,742,269
Depreciation	2,661,886	2,671,162
Garage operations	1,535,946	1,789,656
Total operating expenses	6,919,411	7,680,554
Operating loss	(3,188,045)	(4,372,855)
Nonoperating Revenues (Expenses):		
City of Virginia Beach (schedule E)	12,192,923	9,022,058
Charity Golf Tournament revenues	32,625	30,820
Charity Golf Tournament expenses	(37,724)	(24,824)
Interest income	22,388	32,372
Interest expense (note 9)	(3,181,197)	(3,583,660)
Total nonoperating revenues (expenses)	9,029,015	5,476,766
Income before transfers and capital contributions	5,840,970	1,103,911
Other Financing Sources (Uses):		
Capital Contributions - EDIP	110,892	-
Change in net position	5,951,862	1,103,911
Total net position at beginning of year	50,504,671	49,400,760
Total net position at end of year	\$ 56,456,533	50,504,671

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Statements of Cash Flows - Proprietary Fund
Authority Operations
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers and users	\$ 3,391,772	3,364,446
EDIP cash receipts	35,261	1,826,348
Other operating cash receipts	38,819	3,205
Cash payments to suppliers of goods and services	(4,139,500)	(5,150,364)
Net EDIP activities	(492,420)	(2,377,516)
Net cash used in operating activities	(1,166,068)	(2,333,881)
Cash flows from capital and related financing activities:		
Principal Repayment on Long-Term Debt	(4,745,000)	(8,271,544)
Interest Paid on Long-Term Debt	(3,588,909)	(3,724,687)
Capital contributions from City	12,192,923	9,022,058
Proceeds from Sale of Capital Assets	—	314,528
Governors Opportunity Fund Award proceeds	200,000	—
Governors Opportunity Fund Award	(200,000)	—
Charity Golf Outing Proceeds, net	(5,099)	6,698
Net cash provided by (used in) capital and related financing activities	3,853,915	(2,652,947)
Cash flows from investing activities:		
Interest	22,388	32,372
Vanguard Landing loan	(2,850,406)	—
Net cash provided by (used in) investing activities	(2,828,018)	32,372
Net decrease in cash and cash equivalents	(140,171)	(4,954,456)
Cash and cash equivalents at beginning of year	9,757,608	14,712,064
Cash and cash equivalents at end of year	\$ 9,617,437	9,757,608
Classified as:		
Current assets	\$ 8,019,302	7,452,955
Restricted assets	1,598,135	2,304,653
	\$ 9,617,437	9,757,608
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ (3,188,045)	(4,372,855)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	2,757,738	2,767,014
Changes in assets and liabilities		
Receivables, net	(265,514)	1,886,300
Accounts and other payables	(413,397)	(2,614,340)
Land Inventory	(56,850)	—
Net cash used in operating activities	\$ (1,166,068)	(2,333,881)
Noncash transactions:		
Amortization on bond discount/premium	\$ (287,761)	(107,930)
EDIP Appropriations	\$ 2,763,689	2,243,725
Issuance of City bonds in advance of Town Center capital asset acquisition	\$ 18,781,631	—
Refunding Bonds	\$ 5,205,984	—
Subsequent Event: Cavalier Hotel commitment	\$ —	(7,771,685)

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2014 and 2013

(1) Summary of Significant Accounting Policies

Narrative Profile

The City of Virginia Beach (the City) Development Authority (the Authority) was established by an act of the Virginia General Assembly in 1964 to facilitate expansion of the City's tax base through increased business investment and to create employment opportunities within the City. A commission composed of eleven commissioners appointed by the Virginia Beach City Council governs the Authority.

The Authority is considered a component unit of the City for reporting purposes and, as such, will be a discretely presented component unit in the Comprehensive Annual Financial Report of the City of Virginia Beach. Future funding and ongoing cash flows of the Authority are dependent on the City.

In evaluating how to define the Authority, for financial reporting purposes, management has determined that there are no entities over which the Authority exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the Authority. Since the Authority does not exercise significant influence or accountability over other entities, it has no component units.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America, as specified by the Governmental Accounting Standards Board (GASB). The more significant of the Authority's accounting policies are described below.

The Authority assists in the business/industry location and retention process by acquiring, developing and reselling land, issuing Industrial Revenue Bonds, and administering the Economic Development Investment Program (EDIP). Beginning in 1995, the Authority's mission was expanded to include facilitating economic development projects for the City in order to contribute to the City's economic growth and financial health. This facilitation has been in the structuring of public-private partnerships between the City and private entities.

(A) Basis of Financial Reporting

GASB Statement No. 34 established requirements and a reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Entity-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2014 and 2013

Statement of Net Position – The Statement of Net Position is designed to display the financial position of the Authority (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide statement of net position and report depreciation expense – the cost of “using up” capital assets – in the statement of activities. The net position of a government will be broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities – The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

(B) Entity–Wide and Fund Financial Statements

The basic financial statements include both entity-wide (based upon the Authority as a whole) and fund financial statements. Both the entity-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the entity-wide statement of net position, both the governmental and business-type activities columns are reflected on a full accrual, and economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. As a general rule, the effect of interfund activity has been eliminated from the entity-wide financial statements. The restricted cash and cash equivalents is used for specific purposes and capital projects. When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The program revenues must be directly associated with the function or a business-type activity. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The Authority does not allocate indirect expenses.

(C) Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the fund statements. Long-term assets and long-term liabilities are included in the entity-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The entity-wide Statement of Net Position, Statement of Activities, and Proprietary Fund statements are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2014 and 2013

The statement of net position, statement of activities, and financial statements of the Proprietary Fund are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority Operations fund include the sale of land within Authority corporate parks, administrative fees for the issuance of Industrial Revenue Bonds, and lease income. Operating expenses include the cost of land sold, selling and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted assets are available for use, it is the Authority's policy to apply restricted assets first, then unrestricted assets as needed.

The fund financial statements of the Special Projects Fund are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized when susceptible to accrual (i.e. when they become measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The only revenue source that meets the "susceptible to accrual" criteria is city contributions. For this purpose, the Authority considers the revenues to be available if they are collected within 45 days of year-end. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The Authority reports the following major governmental fund:

The **Special Projects Fund** is used to account for the financial resources for the acquisition or construction of ongoing economic development projects conducted on behalf of the City.

The Authority reports the following major proprietary fund:

The **Authority Operations Fund** accounts for the activities of the Authority which charges fees for Industrial Revenue Bonds, acquires, develops, and resells land, and administers the EDIP.

(D) Capital Assets

All capital assets are stated at cost. Capital assets are defined as assets with initial, individual costs exceeding a \$5,000 threshold. Depreciation is computed on the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	5-10 years
Equipment	5-10 years

A full month's depreciation is taken in the month an asset is placed in service unless otherwise stated. When property and equipment are disposed, the cost of those assets and depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the Authority's Proprietary Fund.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2014 and 2013

Interest costs incurred on the note payable to Wells Fargo Bank for the acquisition of assets are capitalized. The loan and interest charges associated with the asset are secured by a security agreement provided by a developer, which requires the developer to purchase the assets by a date certain.

(E) Land/Building Inventory

Land is stated at acquisition cost plus improvements and capitalized interest, if applicable, but not in excess of net realizable value. Capitalized costs of projects are assigned to individual components of the projects based on specific identification. If specific identification is not practicable, capitalized costs are allocated to each parcel benefited, based on relative fair value before construction. As land is sold, all costs associated with that land are charged to cost of land sold.

In fiscal year 2014, the Authority sold approximately 3.50 acres of land located in Corporate Landing to JTH Properties. This sale decreased the land inventory on the Authority's books by \$167,742.

In fiscal year 2014, the Authority spent \$110,892 as part of a cost participation agreement to construct a temporary parking lot on Block 9 of Town Center. The Authority executed a development agreement with a developer stating that the developer would bear all costs to convert this into permanent parking if the land isn't put to another use by April 30, 2015.

There were no purchases/sales of land or buildings for resale during fiscal year 2013.

(F) Miscellaneous

Cash, Cash Equivalents, and Investments

The Authority has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Investments are stated at amortized cost or at their fair value. Interest earnings on investments are allocated to the appropriate restricted cash account based on the average monthly cash balance. For purposes of the statement of cash flows, all highly liquid debt instruments and certificates of deposit, regardless of maturity date, are grouped into cash and cash equivalents.

Restricted Cash

Restricted cash includes: 1) option deposits on land; 2) excess funds from Town Center option land note and bond proceeds; 3) funds for capital and structural improvements and repairs and maintenance to the Social Services facility; 4) funds for the EDIP; 5) funding from the Governors Opportunity Fund not yet earned by recipient; 6) funds for capital and structural improvements and repairs and maintenance to the Virginia Beach National Golf Course facility; 7) funds for capital and structural improvements, repairs, and maintenance to the assets located in Town Center; 8) funds held for the design of the pedestrian bridge and 9) cash on deposit for the ITA study.

Accounts Receivable

Where appropriate, trade receivables are shown net of an allowance for doubtful accounts.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2014 and 2013

Bond Premiums and Discounts

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds are reported net of the applicable bond premium or discount.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of the amount by which the principal and premium of a refunding bond that exceeded the net carrying amount of the refunded debt. The deferred outflow is being amortized over the remaining life of the refunded debt.

Deferred inflows of resources consist of the amount by which the net carrying amount of refunded debt exceeded the principal and premium of a refunding bond. The deferred inflow is being amortized over the remaining life of the refunded debt.

(2) Cash and Cash Equivalents

The Authority's June 30, 2014 bank balance was fully covered by the Federal Depository Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. If any member financial institution fails, the entire collateral becomes available to satisfy the claims of the Authority. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro-rata basis to the members (banks and savings and loans) of the pool. Therefore, these deposits are considered collateralized and as a result of this are considered insured.

At June 30, 2014, the Authority had a balance of \$4.39 million invested in certificates of deposit and certificates of deposit account registry services programs.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2014 and 2013

The reconciliations of total cash and cash equivalents to the entity-wide financial statements at June 30, 2014 and 2013 are as follows:

	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2014
Cash and Cash Equivalents - Wells Fargo	\$ -	8,019,302	8,019,302
Restricted Cash and Cash Equivalents -			
Option deposits	-	25,000	25,000
Town Center Option Land	-	422	422
ITA Study	-	88	88
Social Services	-	875,621	875,621
EDIP	-	548,497	548,497
EDIP Town Center	376,929	-	376,929
Virginia Beach National Capital Reserve	-	76,756	76,756
Town Center Special Service District	-	71,751	71,751
Pedestrian Bridge	120,862	-	120,862
Total Restricted Cash and Cash Equivalents	<u>497,791</u>	<u>1,598,135</u>	<u>2,095,926</u>
Total	\$ <u><u>497,791</u></u>	<u><u>9,617,437</u></u>	<u><u>10,115,228</u></u>

	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2013
Cash and Cash Equivalents - Wells Fargo	\$ -	7,452,955	7,452,955
Restricted Cash and Cash Equivalents -			
Town Center Option Land	-	422	422
ITA Study	-	88	88
Social Services	-	913,377	913,377
EDIP	-	1,005,656	1,005,656
EDIP Town Center	1,000,000	-	1,000,000
Virginia Beach National Capital Reserve	-	184,887	184,887
Town Center Special Service District	-	200,223	200,223
Pedestrian Bridge	120,862	-	120,862
Total Restricted Cash and Cash Equivalents	<u>1,120,862</u>	<u>2,304,653</u>	<u>3,425,515</u>
Total	\$ <u><u>1,120,862</u></u>	<u><u>9,757,608</u></u>	<u><u>10,878,470</u></u>

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2014 and 2013

(3) Restricted Cash and Cash Equivalents

Restricted cash at June 30, 2014 and 2013 included \$422 of unexpended loan proceeds from the Town Center property financing. These proceeds will be used to reduce the Town Center note when the Authority agrees to sell the next parcel of land in Town Center.

The Social Services Facility reserve accounts at June 30, 2014 and 2013 were \$875,621 and \$913,377, respectively. These funds are reserved for capital and structural improvements, maintenance, and repairs to the facility in accordance with the lease agreement (See note 10).

The EDIP accounts were established in February 1994 through funds that the City appropriated from the Capital Improvement Program EDIP Project for economic development activities. This program represents annual funding from the City to the Authority to be used for on-site and off-site infrastructure needs as well as training expenses for businesses meeting certain criteria. Businesses having received EDIP awards or projects having received EDIP funding are reimbursed for qualifying expenses out of these accounts. EDIP cash and cash equivalents at June 30, 2014 and 2013 were \$925,426 and \$2,005,656 respectively.

Beginning in April of 2008, the VBDA began receiving 5% of gross receipts from Virginia Beach National Golf Course (formerly known as TPC Golf Course) to fund capital maintenance and repairs to the facility. These payments are received on a monthly basis per the management agreement. At June 30, 2014 and 2013, the balance of the Virginia Beach National capital reserve account was \$76,756 and \$184,887, respectively.

In fiscal year 2003, City Council approved a resolution creating a Special Service District (SSD) encompassing the redeveloped blocks in Town Center. Property owners within the SSD paid an additional tax as well as the City's real estate tax to fund enhanced services within Town Center. The account balance at June 30, 2014 and 2013 was \$71,751 and \$200,223, respectively. Since the free parking garages are considered an enhanced service in Town Center, a consultant was engaged to determine the amount of funding that should be placed into a reserve for capital maintenance and repairs for the parking garages. Per the consultant's findings, the SSD places twenty cents per square foot for each parking garage into a reserve specifically for capital purposes. These capital reserves are held by the City within a CIP fund to be used for future expenses.

During fiscal year 2008, City Council approved \$200,000 of CIP funding for the design of the pedestrian bridge across Virginia Beach Boulevard in addition to the \$200,000 in an existing CIP account. The Authority was responsible for awarding and administering the contract with the architect throughout the design process. The balance of the funding at June 30, 2014 and 2013 was \$120,862 for both years.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2014 and 2013

(4) Receivables

Receivables at June 30, 2014 and 2013 consist of the following:

	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2014
Authority Operations	\$ -	30,938	30,938
Due from City of Virginia Beach	-	20,520,052	20,520,052
Town Center Garage Operations	-	368,354	368,354
Vanguard Landing loan	-	2,850,406	2,850,406
Oceanside Inn rent	-	1,788	1,788
Virginia Beach National long-term maintenance	-	19,025	19,025
Deferred Land Sales	-	122,726	122,726
EDIP appropriations from City	-	2,335,374	2,335,374
Gross accounts receivable	-	26,248,663	26,248,663
Less: Allowance for Uncollectibles	-	-	-
Accounts receivable, net	\$ -	26,248,663	26,248,663
	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2013
Authority Operations	\$ -	37,253	37,253
Due from City of Virginia Beach	-	210	210
Town Center Garage Operations	-	22,462	22,462
Virginia Beach National long-term maintenance	-	20,797	20,797
Deferred Land Sales	-	122,726	122,726
EDIP appropriations from City	-	35,261	35,261
Gross accounts receivable	-	238,709	238,709
Less: Allowance for Uncollectibles	-	-	-
Accounts receivable, net	\$ -	238,709	238,709

In fiscal year 2014, the Authority authorized an interest-free loan of \$2,850,406 to Vanguard Landing Inc. for a project that provides residential and employment opportunities for persons with intellectual difficulties. The Authority is serving as a conduit for the pass through of the 15-year secured loan. The agreement calls for annual repayments beginning February 2022, with all principal being due February 2029.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

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Notes to Financial Statements

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(5) Capital Assets

The following schedules summarize the capital assets of the Authority as of June 30, 2014 and 2013:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2014</u>
Governmental Activities				
Non-depreciable assets:				
Construction in progress	\$ 768,973	736,650	-	1,505,623
Business-Type Activities/Authority				
Operations Fund:				
Non-depreciable assets:				
Other non-depreciable assets	\$ 1,130,390	-	-	1,130,390
Land	18,263,370	-	-	18,263,370
Town Center land and capitalized interest	541,852	20,442	(1,545)	560,749
Total non-depreciable assets	<u>19,935,612</u>	<u>20,442</u>	<u>(1,545)</u>	<u>19,954,509</u>
Depreciable assets:				
Buildings	101,654,157	-	-	101,654,157
Equipment and fixtures	593,294	-	(28,229)	565,065
Total depreciable assets	<u>102,247,451</u>	<u>-</u>	<u>(28,229)</u>	<u>102,219,222</u>
Less Accumulated Depreciation for:				
Buildings	(22,925,274)	(2,630,133)	-	(25,555,407)
Equipment and fixtures	(300,066)	(31,753)	28,229	(303,590)
Total accumulated depreciation	<u>(23,225,340)</u>	<u>(2,661,886)</u>	<u>28,229</u>	<u>(25,858,997)</u>
Capital Assets, Net	\$ <u>98,957,723</u>	<u>(2,641,444)</u>	<u>(1,545)</u>	<u>96,314,734</u>

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	<u>Balance</u> <u>June 30, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental Activities				
Non-depreciable assets:				
Construction in progress	\$ 713,434	55,539	-	768,973
Business-Type Activities/Authority				
Operations Fund:				
Non-depreciable assets:				
Other non-depreciable assets	\$ 1,130,390	-	-	1,130,390
Land	18,220,198	43,172	-	18,263,370
Town Center land and capitalized interest	902,494	26,515	(387,157)	541,852
Total non-depreciable assets	<u>20,253,082</u>	<u>69,687</u>	<u>(387,157)</u>	<u>19,935,612</u>
Depreciable assets:				
Buildings	101,654,157	-	-	101,654,157
Equipment and fixtures	593,294	-	-	593,294
Total depreciable assets	<u>102,247,451</u>	<u>-</u>	<u>-</u>	<u>102,247,451</u>
Less Accumulated Depreciation for:				
Buildings	(20,293,260)	(2,632,014)	-	(22,925,274)
Equipment and fixtures	<u>(260,918)</u>	<u>(39,148)</u>	-	<u>(300,066)</u>
Total accumulated depreciation	<u>(20,554,178)</u>	<u>(2,671,162)</u>	<u>-</u>	<u>(23,225,340)</u>
Capital Assets, Net	\$ <u>101,946,355</u>	<u>(2,601,475)</u>	<u>(387,157)</u>	<u>98,957,723</u>

At June 30, 2014 and 2013, depreciation expense related to capital assets was \$2,661,886 and \$2,671,162, respectively, and has been charged to the Authority's Operations Fund.

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Notes to Financial Statements

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(6) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2014 and 2013 consist of the following:

	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2014
Accounts payable	\$ -	176,323	176,323
Accounts payable-Golf Course	-	95,224	95,224
Accounts payable-Pedestrian Bridge	120,862	-	120,862
Accounts payable-CIP	-	10,496	10,496
Accounts payable-City	-	114,227	114,227
Accounts payable-ITA Study	-	88	88
Accounts payable-EDIP	376,929	2,883,872	3,260,801
Total accounts payable	<u>497,791</u>	<u>3,280,230</u>	<u>3,778,021</u>
Accrued interest	-	1,254,922	1,254,922
Option deposits	-	25,000	25,000
Deferred Revenues	-	17,024	17,024
Total accrued liabilities	<u>-</u>	<u>1,296,946</u>	<u>1,296,946</u>
Accounts payable and accrued liabilities	<u>\$ 497,791</u>	<u>4,577,176</u>	<u>5,074,967</u>

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	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2013
	<u> </u>	<u> </u>	<u> </u>
Accounts payable	\$ -	236,819	236,819
Accounts payable-Golf Course	-	204,719	204,719
Accounts payable-Pedestrian Bridge	120,862	-	120,862
Accounts payable-CIP	-	10,496	10,496
Accounts payable-City	-	89,165	89,165
Accounts payable-ITA Study	-	88	88
Accounts payable-EDIP	1,000,000	1,040,917	2,040,917
Total accounts payable	<u>1,120,862</u>	<u>1,582,204</u>	<u>2,703,066</u>
Accrued interest	-	1,328,284	1,328,284
Deferred Revenues	-	3,205	3,205
Total accrued liabilities	<u>-</u>	<u>1,331,489</u>	<u>1,331,489</u>
Accounts payable and accrued liabilities	<u>\$ 1,120,862</u>	<u>2,913,693</u>	<u>4,034,555</u>

On December 7, 2006, the City Council appropriated \$350,000 for the operating expenses associated with the TPC Golf Course facility. After all expenses were incurred, the remaining funding was retained for future capital maintenance and repairs to the facility. In addition, the Authority began receiving 5% of gross revenues on a monthly basis from Virginia Beach National Golf Course (formerly known as TPC) in April of 2008, and this funding is restricted for capital repairs and maintenance to the facility. At June 30, 2014 and 2013, the outstanding balance in the accounts payable-Golf Course account was \$95,224 and \$204,719.

At June 30, 2014 and 2013, unused CIP funding for the Burton Station project was \$10,496 for both years. Funding for this CIP project was on deposit from the City. This funding will be used for future expenses related to the associated project.

The Authority also received funding from the City's CIP to pay for the design of the Pedestrian Bridge across Virginia Beach Boulevard. At June 30, 2014 and 2013, \$120,862 of funding remained for the design fees for both years.

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Notes to Financial Statements

June 30, 2014 and 2013

(7) Long-Term Debt

(A) Revenue Bonds

The Authority issues revenues bonds from time to time for the purpose of financing capital improvements and new projects. In February 1998, the Authority issued \$9,800,000 of Series 1998 Lease Revenue Bonds. The purpose of the bonds was to purchase a new building (Social Services Facility) from the City of Virginia Beach. The Series 1998 Lease Revenue Bonds' interest rates ranged from 4.3% to 5.0%. The principal is paid annually and interest is paid semi-annually with rental payments received from the City (see note 10) with final payment due December 2017. These bonds were refinanced in June 2012, with the maturity date remaining unchanged.

In June 2002, the Authority issued two series of Public Facility Revenue Bonds totaling \$23,855,000. Series 2002A Public Facility Revenue Bonds were issued in the amount of \$20,815,000, while Series 2002B Taxable Public Facility Revenue Bonds were issued in the amount of \$3,040,000. The purpose of the Series 2002 Bonds was to finance the acquisition of a public parking facility and the land for a public plaza in the Town Center development in the City. The Bonds' interest rates ranged from 4.0% to 5.375% for Series 2002A and 4.57% to 5.75% for Series 2002B. The principal is paid annually and interest is paid semi-annually with payments received from the City pursuant to a support agreement dated June 1, 2002. The final payments on Series 2002A and 2002B were due August 2013 and August 2012.

In September 2003, the Authority acted as the conduit issuer for \$165,000,000 in Public Facility Revenue Bonds, at the request of the City of Virginia Beach. The purpose of this funding was to finance various public facilities, including the replacement of the Convention Center, construction of a parking facility for the Virginia Aquarium and Marine Science Center, Open Space site acquisition, construction of an Emergency Communications Operation Center, construction of the 31st Street Parking Garage, construction of the Town Center's Blocks 10 and 12 Parking Garages, and various equipment and software used for the operation of the City. The portion attributable to the Town Center Block 10 and 12 Parking Garages, \$11,800,000, is presented in the business-type activity statements. The Bonds' interest rates ranged from 3.0% to 5.25%, and the final payment was due December 2013.

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In May of 2005, the Authority acted as the conduit issuer for \$94,900,000 in Series 2005A Public Facility Revenue Bonds and \$9,000,000 in Series 2005B Taxable Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$21,080,000 in Series 2005A Public Facility Revenue Bonds and \$9,000,000 in Series 2005B Taxable Public Facility Revenue Bonds. In fiscal year 2005, \$22,130,000 of 2005 bond proceeds were used to purchase a portion of the 31st Street Parking Garage and the 9th Street Parking Garage. In fiscal year 2006, the Authority used a portion of the 2005 bond proceeds in the amount of \$13,616,672 to purchase the Block 10 Parking Garage located in Town Center. The City's share of the bond proceeds were used to finance various public facilities, including the replacement of the Convention Center, construction of a parking facility for the Virginia Aquarium and Marine Science Center, Open Space site acquisition, construction of an Emergency Communications Operation Center, and various equipment and software used for the operation of the City. The Authority and the City entered into support agreements, dated September 1, 2003 and May 1, 2005, whereby the City supports all Authority financial obligations (principal and interest payments) with regard to the bonds. The source of the City's support for the Town Center Public Parking Garage portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the business-type activity statements. The Bonds' interest rates ranged from 4.0% to 5.0% for Series 2005A and 4.75% to 5.0% for Series 2005B. The final payments on Series 2005A and 2005B are due May 2025.

In June of 2007, the Authority acted as the conduit issuer for \$96,835,000 in Series 2007A Public Facility Revenue Bonds and \$4,030,000 in Series 2007B Taxable Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$21,555,000 in Series 2007A Public Facility Revenue Bonds and \$4,030,000 in Series 2007B Taxable Public Facility Revenue Bonds. In fiscal year 2008, the bond proceeds were used to purchase the Block 7 Parking Garage, the Block 7 Conference Center, and the Pedestrian Bridge connecting Block 7 and Block 12 located in Town Center. The City's share of the bond proceeds were used to finance various public facilities, including the replacement of the Pavilion Theater and the Convention Center, the construction of the Sandler Center for the Performing Arts, Open Space Site acquisition, a Revenue Assessment and Collection System, a City/School Human Resource Payroll System, and an Automatic Vehicle Locator System. The Authority and the City entered into a support agreement, dated June 1, 2007, whereby the City supports all Authority financial obligations (principal and interest payments) with regard to the bonds. The source of the City's support for the Town Center Public Parking Garage, Pedestrian Bridge, and Conference Center portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the business-type activity statements. The Bonds' interest rates were 5.00% for Series 2007A and the rates ranged from 5.85% to 6.50% for Series 2007B. The final payments on Series 2007A and 2007B are due July 2027.

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June 30, 2014 and 2013

In June of 2014, the Authority acted as the conduit issuer for \$44,975,000 in Series 2014A Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$18,781,631 in Series 2014A Public Facility Revenue Bonds. In fiscal year 2015, the bond proceeds will be used to purchase the Block 11 Parking Garage located in Town Center. The City's share of the bond proceeds are being used to finance various public facilities, including the replacement of the Bow Creek Community Recreation Center, the construction of the consolidated Old Donation Center/Kemps Landing Magnet school, a Revenue Assessment and Collection System, renovation to school HVAC systems, and roadway improvements at Burton Station Road, Centerville Turnpike, Laskin Road, Pacific Avenue, and Greenwich Road. The Authority and the City entered into a support agreement, dated June 1, 2014, whereby the City supports all Authority financial obligations (principal and interest payments) with regard to the bonds. The source of the City's support for the Town Center Public Parking Garage portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the business-type activity statements. The Bonds' interest rates ranged from 2.00% to 5.00% for Series 2014A. The final payment on Series 2014A is due May 2034.

(B) Notes Payable – Town Center

On, March 6, 2000, the Authority and Town Center Associates, L.L.C. entered into an agreement for the development of the Town Center. Financing for the purchase of the land for future phases beyond Phase I of this project was obtained from First Union National Bank/Wachovia in the amount of \$5,500,000. Total advances on this loan may not exceed \$11,135,000, to include accrued interest through December 2006. The original loan agreement was signed on June 8, 2000 and called for semiannual interest payments starting November 30, 2000, with all principal and interest due December 1, 2006. Under the terms of this agreement, the Authority was not required to make any principal or interest payments on this loan until November of 2008; and the intention is to not make principal or interest payments, except to the extent funds are available from the sale of this land. To date, \$1,146,175 has been added to the original principal of the loan in the form of interest. As of June 30, 2014 and 2013, the outstanding balance was \$947,939. The loan is secured by a surety agreement provided by Town Center Associates, L.L.C.

In November of 2012, the Authority approved the Phase V Development Agreement. This agreement specifies that in the event the developer does not construct improvements on the remainder of the Town Center land before April of 2015, the developer has an obligation to make payments to the City in an amount totaling \$2,950,000 beginning in 2015. The payments will be offset by taxes generated on the remaining option land should the developer timely make those improvements.

In May 2013, the Authority approved extending the Town Center note payable to May 2014. The interest rate for the note was the LIBOR rate plus 1.70%.

In April 2014, the Authority approved extending the Town Center note payable through April 2015. The interest rate for the note is the LIBOR rate plus 2.25%.

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(C) Long-term debt activities for the year ended June 30, 2014 and 2013 were as follows:

	Balance			Amounts	
	June 30, 2013	Additions	Reductions	Balance	Due Within
				June 30, 2014	One Year
Business-type activities/Authority					
Operations Fund					
Bonds and notes payable:					
Public facility revenue bonds	\$ 75,580,486	23,987,615	(10,240,000)	89,328,101	5,693,791
Notes payable-Town Center Option Land	947,939	-	-	947,939	947,939
	<u>76,528,425</u>	<u>23,987,615</u>	<u>(10,240,000)</u>	<u>90,276,040</u>	<u>6,641,730</u>
Add: Bond premium	1,462,146	1,737,571	(351,445)	2,848,272	-
Less: Bond discount	<u>(107,674)</u>	<u>-</u>	<u>63,683</u>	<u>(43,991)</u>	<u>-</u>
Business- Type Activities/Authority					
Long-Term Debt	\$ <u>77,882,897</u>	<u>25,725,186</u>	<u>(10,527,762)</u>	<u>93,080,321</u>	<u>6,641,730</u>

	Balance			Amounts	
	June 30, 2012	Additions	Reductions	Balance	Due Within
				June 30, 2013	One Year
Business-type activities/Authority					
Operations Fund					
Bonds and notes payable:					
Public facility revenue bonds	\$ 79,850,486	-	(4,270,000)	75,580,486	4,745,000
Notes payable-Town Center Option Land	1,298,051	-	(350,112)	947,939	947,939
	<u>81,148,537</u>	<u>-</u>	<u>(4,620,112)</u>	<u>76,528,425</u>	<u>5,692,939</u>
Add: Bond premium	1,583,900	-	(121,754)	1,462,146	-
Less: Bond discount	<u>(121,499)</u>	<u>-</u>	<u>13,825</u>	<u>(107,674)</u>	<u>-</u>
Business- Type Activities/Authority					
Long-Term Debt	\$ <u>82,610,938</u>	<u>-</u>	<u>(4,728,041)</u>	<u>77,882,897</u>	<u>5,692,939</u>

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The requirements to amortize all long-term bonds and notes payable as of June 30, 2014, including interest payments of \$29,289,150 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 6,641,730	3,990,821
2016	6,284,634	3,883,360
2017	6,921,280	3,569,154
2018	7,333,840	3,234,659
2019	7,073,840	2,879,914
2020-2024	36,906,067	8,869,706
2025-2029	14,345,449	2,344,077
2030-2034	4,769,200	517,459
	<u>\$ 90,276,040</u>	<u>29,289,150</u>

(D) Advance Refunding Revenue Bonds

On May 25, 2010, the City issued \$98.035 million of Public Facility Refunding Revenue Bonds, Series 2010B and \$40.45 million of Public Facility Refunding Revenue Bonds, Series 2010C. The refunding bonds combined with \$19.03 million in premiums to provide resources to purchase U.S. Government, State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$137.5 million of Public Facility Revenue bonds. Included in the bonds sold were \$37.015 million in Public Facility Refunding Revenue Bonds to refund debt currently held by the Virginia Beach Development Authority (VBDA). As a result, the refunded bonds are considered to be defeased and the liability has been removed from the VBDA's statement of net position. The principal and premium of the refunding bonds exceeded the net carrying amount of the old debt currently held by VBDA by \$1,540,000. This amount is being amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This current and advance refunding was undertaken to reduce total debt service payments over the next 13 years by \$ 6.36 million and resulted in an economic gain of \$4.1 million.

In June 2012, the City issued \$25.64 million of Public Facility Refunding Revenue Bonds, Series 2012B. The refunding achieved debt service savings by refinancing all or portions of certain Public Facility Revenue Bonds, Series 2003A and Lease Revenue Bonds (Social Services Facility), Series 1998 previously issued by the Authority on behalf of the City. Included in the bonds sold were \$5.415 million in Public Facility Refunding Revenue Bonds to refund debt currently held by the VBDA. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the VBDA's statement of net position. The net carrying amount of the old debt exceeded the principal and premium of the refunding bonds by \$399,514. This amount is being amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This current and advance refunding was undertaken to reduce total debt service payments over the next 12 years by \$5.28 million and resulted in an economic gain of \$4.32 million.

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In June 2014, the City issued \$20.32 million of Public Facility Refunding Revenue Bonds, Series 2014B. The refunding achieved debt service savings by refinancing all or portions of certain Public Facility Revenue Bonds, Series 2005A previously issued by the Authority on behalf of the City. Included in the bonds sold were \$5.206 million in Public Facility Refunding Revenue Bonds to refund debt currently held by the VBDA. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the VBDA's statement of net position. The net carrying amount of the old debt exceeded the principal and premium of the refunding bonds by \$289,016. This amount is being amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$.48 million and resulted in an economic gain of \$.41 million.

(8) Conduit Debt - Industrial Revenue Bonds

Periodically, the Authority has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The Authority is never obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2014 and 2013, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$198,160,674 and \$225,491,645, respectively.

(9) Interest Cost

The Authority capitalizes interest cost related to construction in progress. The following is a summary of interest cost incurred during 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest cost capitalized	\$ 18,897	24,348
Interest cost expensed to income	<u>3,181,197</u>	<u>3,583,660</u>
Total interest cost incurred	<u>\$ 3,200,094</u>	<u>3,608,008</u>

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(10) Lease Income

Lease income as reflected in the statements of revenues, expenses, and changes in net position was \$2,690,700 and \$2,492,040, respectively for the years ended June 30, 2014 and 2013. The following is a detailed list of the revenue earned:

	<u>2014</u>	<u>2013</u>
Social Services Facility	\$ 686,850	683,640
Amphitheater rent	204,218	127,770
Virginia Beach National Operations Rent/Profit-Sharing	84,508	86,214
Heron Ridge Operations / Profit-Sharing	-	7,795
300 Atlantic Avenue Hotel	180,614	135,609
Town Center Garage	246,961	234,666
31st Street Garage	405,977	406,090
9th Street Garage	628,501	564,556
110 S Independence Blvd Building	253,071	245,700
	<u>\$ 2,690,700</u>	<u>2,492,040</u>

(A) Social Services Facility

In 1998, the Authority entered into a 20-year operating lease with the City. The City pays basic rent equal to the amounts required to pay the principal and interest of the Lease Revenue Bonds Series 1998 and additional rent equal to one-eighth of one percent of the outstanding principal balance of the bonds. In addition, \$50,000 had been paid semi-annually and placed in a reserve to be used as needed for capital and structural improvements, maintenance, and repair of the facility (see note 3). In fiscal year 2011, this semi-annual payment was suspended as the reserve fund balance was deemed sufficient to cover projected expenses over the next 3-4 years.

The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2014</u>	<u>2013</u>
Social Services Facility (including land)	\$ 9,497,137	9,497,137
Less accumulated depreciation	(2,838,431)	(2,663,503)
Net investment in property held for lease	<u>\$ 6,658,706</u>	<u>6,833,634</u>

Minimum future rental income on this lease as of June 30, 2014 is as follows: 2015, \$683,625; 2016, \$689,800; 2017, \$690,300; 2018, \$690,200.

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(B) *Amphitheater*

The Amphitheater Lease Agreement provides that Cellar Door Venues, Inc. (Cellar Door) will pay the Authority rent having three components: ground rent, basic rent, and supplemental rent. Ground rent is the sum of \$120,000 offset and reduced by the total amount of Amphitheater leasehold (real estate) taxes paid to the City during the calendar year. Cellar Door also pays basic rent to the Authority in an amount equal to 10% of adjusted ticket revenues (offset by admissions taxes paid to City), 5% of adjusted sponsorship revenues, and 5% of adjusted parking revenues paid during the year. Minimum basic rent was \$610,000 annually (before reduction of admissions taxes, parking and sponsorship revenues) until the City recovered its investment in 2008, after which time the Authority was able to retain an administrative fee. In addition, Cellar Door was also responsible for the payment of supplemental rent in the amount of \$200,000 every fifth year beginning in December of 2005. Supplemental rent was to be paid to the Authority until 2025, or until the City recovered its investment, which occurred in 2010. Section 3.2 of the Amphitheater Coordination Agreement provides that the Authority shall remit to the City an amount equal to all rent actually received from Cellar Door under the Lease Agreement. The term of the lease is 30 years.

The Authority does not record any investment in the property.

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

(C) *TPC Golf Course/Virginia Beach National Golf Course*

In 1997, the Authority and TPC of Virginia Beach, L.L.C. (TPC) executed a sublease agreement, which ends in October 2037. The basic rent is offset and reduced by the total amount of taxes paid by TPC or TPC's concessionaires to the City during the calendar year.

On October 30, 2006, the sublease agreement between the Authority and TPC of Virginia Beach, L.L.C. was terminated, and the Authority purchased the course land and assets on December 29, 2006. TPC continued to operate the course through March 31, 2007, and basic rent for calendar year 2006 was due and received.

A new operating agreement between the Authority and Virginia Beach Golf Club, L.L.C. was signed on March 30, 2007, and the name of the course was changed to Virginia Beach National Golf Course effective April 1, 2007. The initial term of the agreement will end December 31, 2011, and may be extended at the mutual option of the Authority and Virginia Beach Golf Club, L.L.C. for three additional two-year terms. The rent due to the Authority includes 10% of gross revenues paid monthly (5% for rent and 5% for future capital maintenance and repairs to the facility) as well as a profit sharing payment equal to 25% of net income generated by the Golf Course Facility in excess of \$100,000 during each calendar year.

Because of the start-up costs incurred by Virginia Beach Golf Club, the Authority agreed to an abatement of the monthly rental payments (but not profit sharing) during the period April 1, 2007 through March 31, 2008. Beginning April 1, 2008, the Authority began receiving monthly rental payments in the amount of 10% gross revenue in accordance with the lease agreement.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2014 and 2013

The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2014</u>	<u>2013</u>
Virginia Beach National Golf Course (including land)	\$ 4,636,163	4,636,163
Less accumulated depreciation	<u>(1,097,119)</u>	<u>(961,058)</u>
Net investment in property held for lease	<u>\$ 3,539,044</u>	<u>3,675,105</u>

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

(D) 300 Atlantic Avenue Hotel

In June 2002, as part of the amended and restated 31st Street Project Development Agreement and other documents, the Authority agreed to purchase the property and building improvements, at 300 Atlantic Avenue, known as Beach Quarters Inn. The purchase of this property occurred in October 2002. In August 2012, the Authority approved a lease agreement with Pinnacle Holdings VIII, LLC. The initial lease term is for five-years beginning October 1, 2012. The rent is \$184,190.73 per annum, escalating three percent each year, and is paid in equal installments in June, July and August.

The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2014</u>	<u>2013</u>
300 Atlantic Avenue Hotel (including land)	\$ 2,200,000	2,200,000
Less accumulated depreciation	<u>(1,342,000)</u>	<u>(1,342,000)</u>
Net investment in property held for lease	<u>\$ 858,000</u>	<u>858,000</u>

Minimum future rental income on this lease as of June 30, 2014 is as follows: 2015, \$186,033; 2016, \$191,614; 2017, \$197,362; 2018, \$134,180.

(E) Town Center

As part of the Town Center Phase I Development Agreement, the Authority has the right to lease the Developer up to 178 of the parking spaces in the Town Center Parking Garage (Block 4). The Master Agreement pertaining to this lease arrangement as well as the Authority's right to lease up to 10,196 square feet of vault space located in the Town Center Parking Garage (Block 4) was executed in December 2002 with a 30 year term. At June 30, 2014, parking and vault spaces were being leased at varying monthly rates of \$100 - \$115 per space and \$1 - \$2 per rental square foot, respectively.

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The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2014</u>	<u>2013</u>
Town Center Block 4 Garage (including land)	\$ 22,875,431	22,875,431
Less accumulated depreciation	(6,270,349)	(5,729,024)
Net investment in property held for lease	<u>\$ 16,605,082</u>	<u>17,146,407</u>

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

As part of the Phase II Development Agreement, the Authority has the right to lease the Developer 85 of the parking spaces in the Town Center Parking Garage (Block 10). The agreement was executed in in June 2003 with a 30 year term. At June 30, 2014, residential parking spaces were being leased at monthly rates of \$60 per space.

The Authority also has the right to lease the Developer 1,365 square feet of storage space in the Town Center Parking Garage (Block 12). In June 2007, the Authority approved a lease agreement for the initial term of 20 years. The yearly rent is \$5 per square foot, escalating 3% each year. In the event that the Developer is unable to sublease the storage space, all rent payments are suspended while the storage space is vacant. At June 30, 2014, this storage space was vacant.

The following schedule shows the composition of the Authority's investment in property under the Block 10 lease:

	<u>2014</u>	<u>2013</u>
Town Center Block 10 Garage (including land)	\$ 13,616,672	13,616,672
Less accumulated depreciation	(2,794,012)	(2,468,496)
Net investment in property held for lease	<u>\$ 10,822,660</u>	<u>11,148,176</u>

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

The following schedule shows the composition of the Authority's investment in property under the Block 12 lease:

	<u>2014</u>	<u>2013</u>
Town Center Block 12 Garage (including land)	\$ 4,465,983	4,465,983
Less accumulated depreciation	(837,782)	(748,814)
Net investment in property held for lease	<u>\$ 3,628,201</u>	<u>3,717,169</u>

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Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

As part of the Phase III Development Agreement, the Authority has the right to lease the Developer 72 of the parking spaces in the Town Center Parking Garage (Block 7). This agreement was executed in September 2005 with a 30-year term. At June 30, 2014, residential and commercial parking spaces were being leased at monthly rates of \$60 and \$136 per space, respectively.

The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2014</u>	<u>2013</u>
Town Center Block 7 Garage (including land)	\$ 17,041,170	17,041,170
Less accumulated depreciation	<u>(2,702,972)</u>	<u>(2,292,394)</u>
Net investment in property held for lease	<u>\$ 14,338,198</u>	<u>14,748,776</u>

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

(F) 31st Street Garage

In July 2003, the 31st Street Garage Deed of Lease Agreement was executed. This provides that in 2005, Thirty-First Street, L.C. will begin paying the Authority parking rent having three components: basic rent, special basic rent, and additional rent. Basic rent is payable in equal monthly installments. Special basic rent is payable annually in advance on the first day of each lease year. Additional rent is based upon a percentage of hotel room revenues, not to exceed a maximum amount, and is payable at the end of each lease year. In addition, Thirty-First Street, L.C. is also responsible for the payment of retail rent in the amount of \$15 per square foot of retail space. Retail rent is payable in equal monthly installments. Article XIII.B.7 of the Development Agreement provides for an annual rent credit of \$260,000 for the first 25 years of the lease. The term of the lease is 65 years.

The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2014</u>	<u>2013</u>
31st Street Garage (including land)	\$ 17,507,500	17,507,500
Less accumulated depreciation	<u>(3,106,237)</u>	<u>(2,764,266)</u>
Net investment in property held for lease	<u>\$ 14,401,263</u>	<u>14,743,234</u>

Minimum future rental income on this lease as of June 30, 2014 is as follows: 2015, \$416,458; 2016, \$401,458; 2017, \$401,458; 2018, \$401,458; 2019, \$401,458.

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June 30, 2014 and 2013

(G) 9th Street Garage

On March 31, 2005, the Authority used proceeds from Public Facility Revenue Bonds to purchase the 9th Street Parking Garage for \$9,750,000. The garage consists of 664 spaces; however, only 610 spaces are available for public parking. The remaining 54 spaces are under a long-term lease agreement that was signed prior to the Authority's purchase of the Parking Garage. The garage is operated by the City of Virginia Beach. Public parking is available for purchase at rates established by the City of Virginia Beach.

The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2014</u>	<u>2013</u>
9th Street Garage (including land)	\$ 9,750,000	9,750,000
Less accumulated depreciation	(2,275,000)	(2,031,250)
Net investment in property held for lease	<u>\$ 7,475,000</u>	<u>7,718,750</u>

Minimum future rental income from this lease cannot be determined in advance, but will be calculated based on the terms above.

(H) 110 S Independence Blvd Building

In August 2009, the Authority purchased the former Circuit City building located at 110 South Independence Blvd for \$5,033,213. In September 2011, the Authority leased the building to Kline Imports Chesapeake. The initial lease term is for 5 years and includes up to five (5) additional one-year terms.

The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2014</u>	<u>2013</u>
110 S Independence Blvd (including land)	\$ 5,033,213	5,033,213
Less accumulated depreciation	(463,928)	(366,259)
Net investment in property held for lease	<u>\$ 4,569,285</u>	<u>4,666,954</u>

Minimum future rental income on this lease as of June 30, 2014 is as follows: 2015, \$260,345; 2016, \$268,155; 2017, \$67,531.

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Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2014 and 2013

(11) Advances from City of Virginia Beach

Advances from the City of Virginia Beach represent funds that have been provided, by the City, to the Authority for the construction of capital projects. When construction is complete, the capital asset reverts back to the City or is transferred to the Authority's Proprietary Fund. During fiscal year 2014 and 2013, the City had advanced funding for the following capital projects:

Pedestrian Bridge – The project involves the management of the design of the Pedestrian Bridge across Virginia Beach Boulevard in accordance with the contract between the Authority and PB Americas, Inc. During fiscal year 2014 and 2013, no amounts were used to fund the costs related to the design of the Pedestrian Bridge.

Town Center Infrastructure – The project is the result of a public/private investment partnership agreement between the City, the Authority, and Town Center Associates, L.L.C. During fiscal year 2014 and 2013, \$736,650 and \$49,080 was used to fund infrastructure costs related to Town Center, and no infrastructure assets were completed and transferred to the City.

The costs for the Town Center project include infrastructure for streets, curbs and gutters, sidewalks and underground utilities. The total funding used for Phase I of the project was \$6,357,000, of which \$5,000,000 is funded through the Authority's EDIP program and \$1,357,000 was funded through the City's CIP Program. Funding used for Phase II includes \$4,000,000, funded from the Authority's EDIP and \$3,700,000 from the City's CIP Program. Funding for Phase III includes \$1,000,000 funded from the Authority's EDIP and \$650,000 from the City's CIP Program. The Beacon Exchange, which took place in fiscal year 2009, included funding of \$4,260,000 from the Central Business South TIF as well as \$767,946 from the Authority's EDIP. Phase V of this project includes \$3,500,000, which will be funded through the Authority's EDIP program as well.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Schedules of General and Other Expenses – Authority Operations
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
General expenses:		
Leases	\$ 1,783,192	1,593,390
Amphitheater box seating	23,038	22,100
Independent audit fees	18,000	18,000
Amortization	95,852	95,852
Gifts and donations	10,000	10,000
Economic Gardening grants	4,500	18,000
Leasehold improvements	212,966	346,133
Total general expenses	<u>2,147,548</u>	<u>2,103,475</u>
Other expenses:		
Architecture and engineering	152,307	125,613
Park maintenance – Corporate Landing	28,226	110,291
Utilities – Corporate Landing fountain	1,689	2,988
Consultant fees	—	301,339
Commissioner Stipend	5,150	—
Miscellaneous	126,022	98,563
Total other expenses	<u>313,394</u>	<u>638,794</u>
Total general and other expenses	<u>\$ 2,460,942</u>	<u>2,742,269</u>

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Schedules of Land and Building Inventory for Resale
June 30, 2014 and 2013

Description:	2014	2013
Oceana West Corporate Park – beginning inventory July 1	\$ 1,555,548	1,555,548
Current – cost of sales	<u>—</u>	<u>—</u>
Oceana West Corporate Park – ending inventory June 30	<u>1,555,548</u>	<u>1,555,548</u>
Corporate Landing Office Park – beginning inventory July 1	10,483,267	10,483,267
Current – cost of sales	(167,742)	—
Corporate Landing Office Park – ending inventory June 30	<u>10,315,525</u>	<u>10,483,267</u>
Town Center Beacon Land – beginning inventory July 1	4,877,946	4,877,946
Current – cost of sales	<u>—</u>	<u>—</u>
Town Center Beacon Land – ending inventory June 30	<u>4,877,946</u>	<u>4,877,946</u>
Town Center Parking Lot - beginning inventory July 1	—	—
Current - cost participation	110,892	—
Town Center Parking Lot - ending inventory June 30	<u>110,892</u>	<u>—</u>
Hunt Club 2 – beginning inventory July 1	200,305	200,305
Current – cost of sales	<u>—</u>	<u>—</u>
Hunt Club 2 – ending inventory June 30	<u>200,305</u>	<u>200,305</u>
Headquarters Hotel Site Land - beginning inventory July 1	3,986,640	3,986,640
Land transferred from City	<u>—</u>	<u>—</u>
Headquarters Hotel Site Land - ending inventory June 30	<u>3,986,640</u>	<u>3,986,640</u>
Headquarters Hotel Site Building - beginning inventory July 1	406,603	406,603
Land transferred from City	<u>—</u>	<u>—</u>
Headquarters Hotel Site Building - ending inventory June 30	<u>406,603</u>	<u>406,603</u>
Total ending inventory	<u>\$ 21,453,459</u>	<u>21,510,309</u>

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Schedules of Construction in Progress
June 30, 2014

	<u>Town Center Infrastructure</u>	<u>Dome Site</u>	<u>Headquarters Hotel</u>	<u>Pedestrian Bridge</u>	<u>Total</u>
Expended during the year ended June 30:					
2001	\$ 3,095,062	—	—	—	3,095,062
2002	956,014	—	—	—	956,014
2003	2,581,205	—	—	—	2,581,205
2004	(1,704,696)	—	—	—	(1,704,696)
2005	(4,901,962)	—	—	—	(4,901,962)
2006	34,449	—	—	—	34,449
2007	233,037	100,738	—	—	333,775
2008	1,445,110	10,200	527	272,603	1,728,440
2009	(1,628,463)	—	—	6,535	(1,621,928)
2010	98	—	—	—	98
2011	3,872	—	—	—	3,872
2012	2,300	—	206,805	—	209,105
2013	49,080	6,459	—	—	55,539
2014	736,650	—	—	—	736,650
	<u>\$ 901,756</u>	<u>117,397</u>	<u>207,332</u>	<u>279,138</u>	<u>1,505,623</u>

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Schedules of EDIP Accounts Payable
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Balance Forward	\$ 2,040,917	12,404,863
Funding sources:		
EDIP City Appropriation - fiscal year	2,763,689	2,243,725
Reimbursement for APZ-1 awards and fees paid	27,716	692,637
Interest earned - fiscal year	5,719	21,820
Total Funding Available	<u>4,838,041</u>	<u>15,363,045</u>
Expenses:		
EDIP awards paid	(296,454)	(2,297,531)
APZ-1 awards and expenses paid	(27,716)	(692,637)
Engineering studies, legal fees and miscellaneous expenses	(21,423)	(21,990)
Town Center expenditures	(803,332)	(2,538,285)
Cavalier Hotel commitment	(428,315)	(7,771,685)
Total Expenditures	<u>(1,577,240)</u>	<u>(13,322,128)</u>
Total Accounts Payable - Economic Development Program	\$ <u>3,260,801</u>	<u>2,040,917</u>

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Schedules of Nonoperating Revenue from City of Virginia Beach
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Central Business District - South payment of debt service for Town Center Note and Public Facility Revenue Bonds	\$ 5,846,865	5,568,349
9th Street Garage payment of debt service for Public Facility Revenue Bonds	689,363	694,075
31st Street Garage payment of debt service for Public Facility Revenue Bonds	1,092,350	1,094,113
Virginia Beach Amphitheater Capital Improvement Program	175,028	245,162
EDIP Part D projects	3,273	—
APZ-1 reimbursement of engineering fees	3,938	630
Vanguard Landing funding for loan receivable	2,850,406	—
Town Center Garage - Special Service District	1,531,700	1,419,729
Total Nonoperating Revenue From City of Virginia Beach	<u>\$ 12,192,923</u>	<u>9,022,058</u>

COMPLIANCE SECTION

**Report of Independent Auditor on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

The Commissioners
City of Virginia Beach Development Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Virginia Beach Development Authority (the "Authority"), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cheryl Bekart LLP

Virginia Beach, Virginia
October 14, 2014